THINKING OF GETTING BACK INTO THE MARKET?

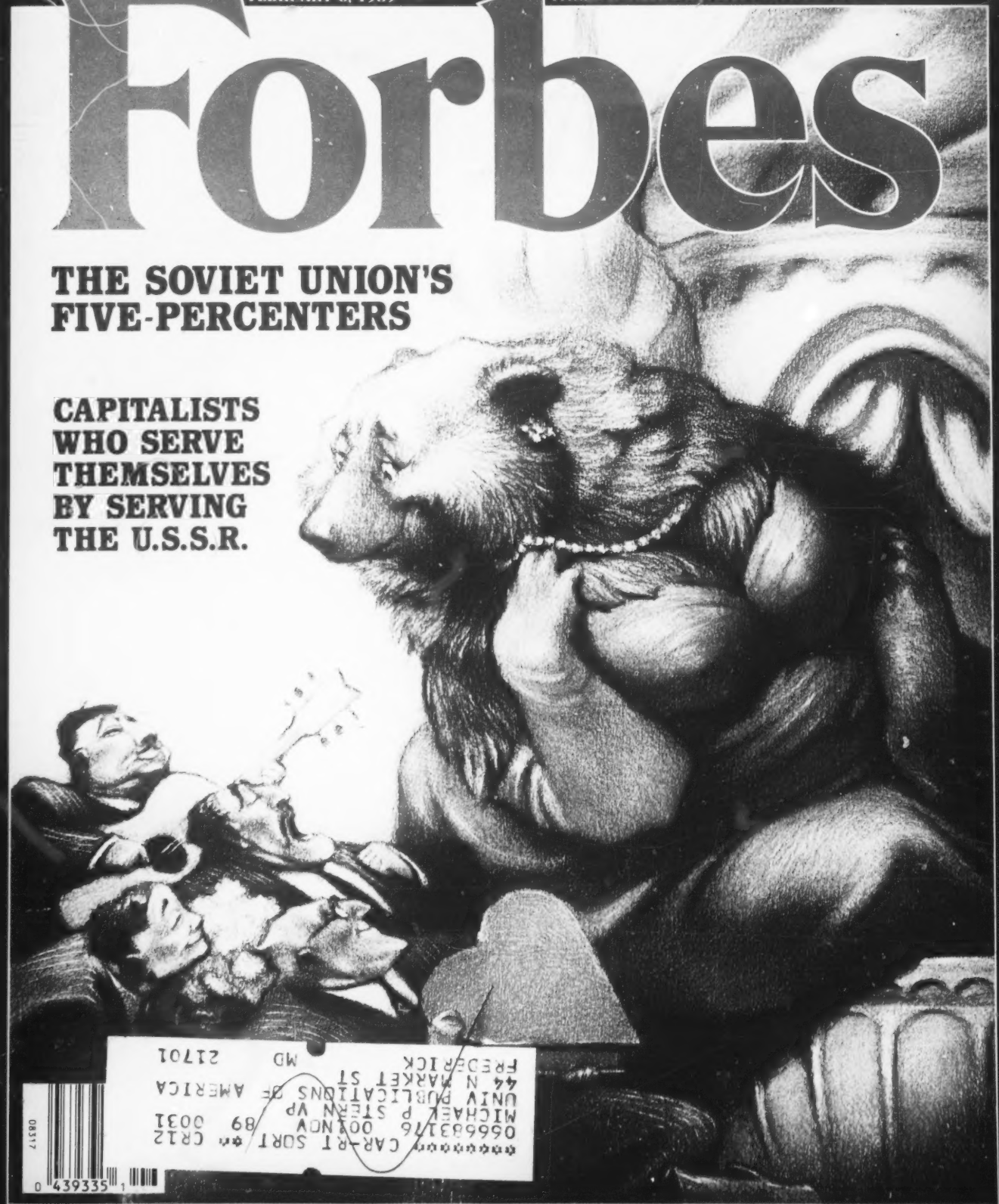
BULL/BEAR RATING ON 600 FUNDS

FEBRUARY 6, 1989 THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

THE SOVIET UNION'S FIVE-PERCENTERS

CAPITALISTS WHO SERVE THEMSELVES BY SERVING THE U.S.S.R.



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Cover illustration by Carter Goodrich

40 *Target for the trigger-happy*

FEBRUARY 6, 1989
VOLUME 143
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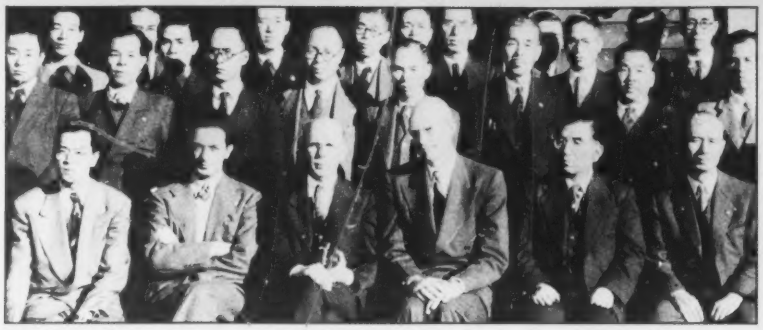

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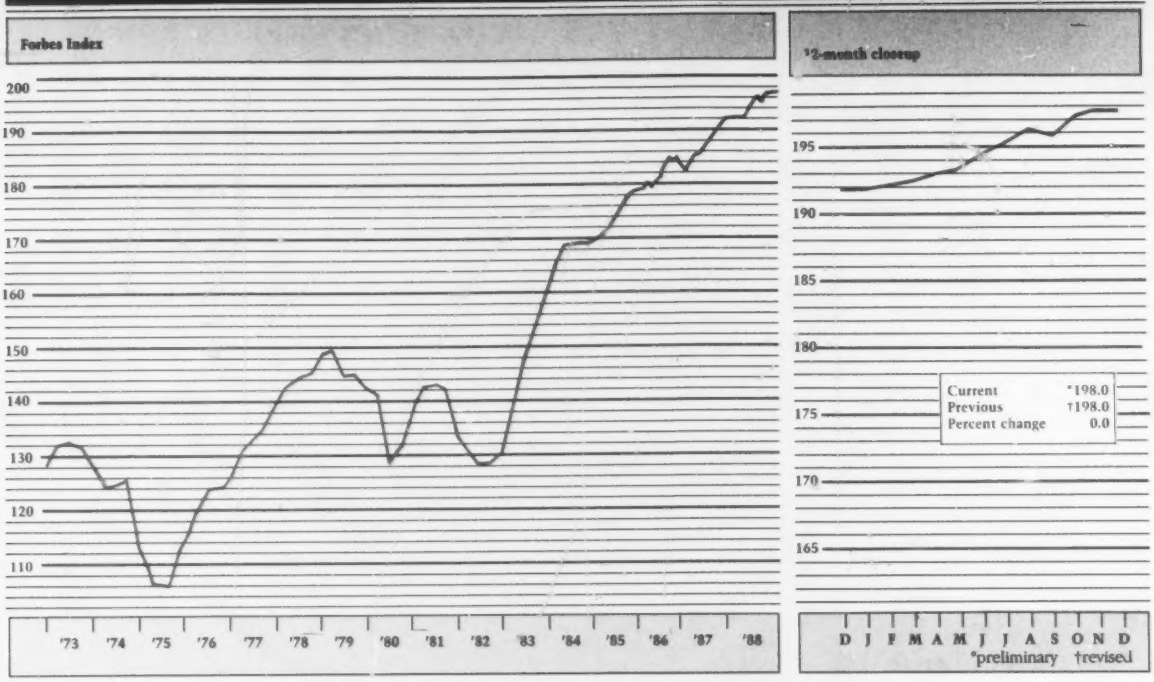
The Forbes Index



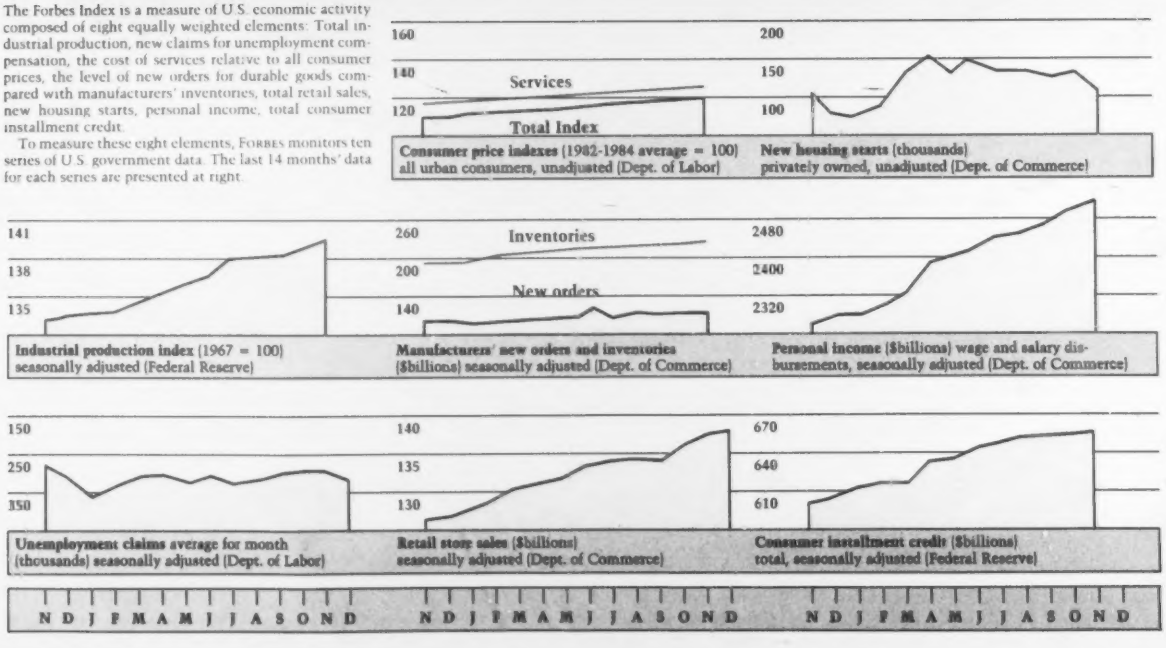
After the Gipper. Ronald Reagan left office with the economy entering a remarkable seventh year of expansion. The Forbes Index is up 54% from its 1982 low. But, as our Index shows, there have been breaks in the rise.

It's impossible to say that another break is in the making, but the newest data are surely mixed. Manufacturers' new orders declined a hair, less than 0.1%, in November after posting a 2.9% gain in October (revised). Inventories rose 0.7% in November, in line with recent monthly gains. New unemployment claims in December jumped 5.8%, to 311,300, the highest total since last July. And the revised third-quarter gross national product indicates the economy grew at a 2.5% annual rate, the slowest rate since the fourth quarter of 1986.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


160
140
120
Services
Total Index
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)
200
150
100
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
141
138
135
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
260
200
140
Inventories
New orders
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)
2480
2400
2320
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
150
250
350
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
140
135
130
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
670
640
610
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D

Forbes

There's more to these trade squabbles than hormones in beef. Protectionism is making a comeback throughout a world that seems to be grouping into three main trading blocs.

Sons of Smoot-Hawley

By Edwin A. Finn Jr.

UNLESS SOMETHING can be done to stop it, international trade will soon have degenerated from relatively free exchange to a system of three separate trading blocs. This is not just a threat. It is an emerging reality.

During the past two years, the broad outlines of these blocs have started to emerge. Call them the United States of North America, the United States of Europe and the United States of Asia. Statistics show that trade inside these blocs is growing at a rapid pace, while trade among these blocs is either declining or growing far more moderately. This reverses decades of booming and beneficial trade among the continents.

The trend is most pronounced in Europe, where regional integration is most advanced. Inside the European Economic Community, trade jumped nearly 15% since 1985, while EEC trade with nonmember countries actually fell by an estimated 10%.

Last year the trend surfaced in North America, with trade among the U.S., Canada and Mexico growing almost 20% in the first nine months, compared with a 5% increase in North America's trade with Europe *(see chart, p. 39)*. These trade patterns are expected to intensify as the Canada-U.S. Free Trade Agreement and the European community's 1992 unification plans take full effect.

Japan, meanwhile, has virtually recolonized Asia, building factories throughout the region. Little wonder Japan's trade with its Asian neighbors jumped an estimated 30% last year. Overall, trade within a nine-nation Asian bloc defined by FORBES grew at a 32% pace in 1988's first nine months. Asian trade with Europe and with North America in the same period was up substantially, too—10% and 17%, respectively—but not nearly as robustly as intra-Asian trade.

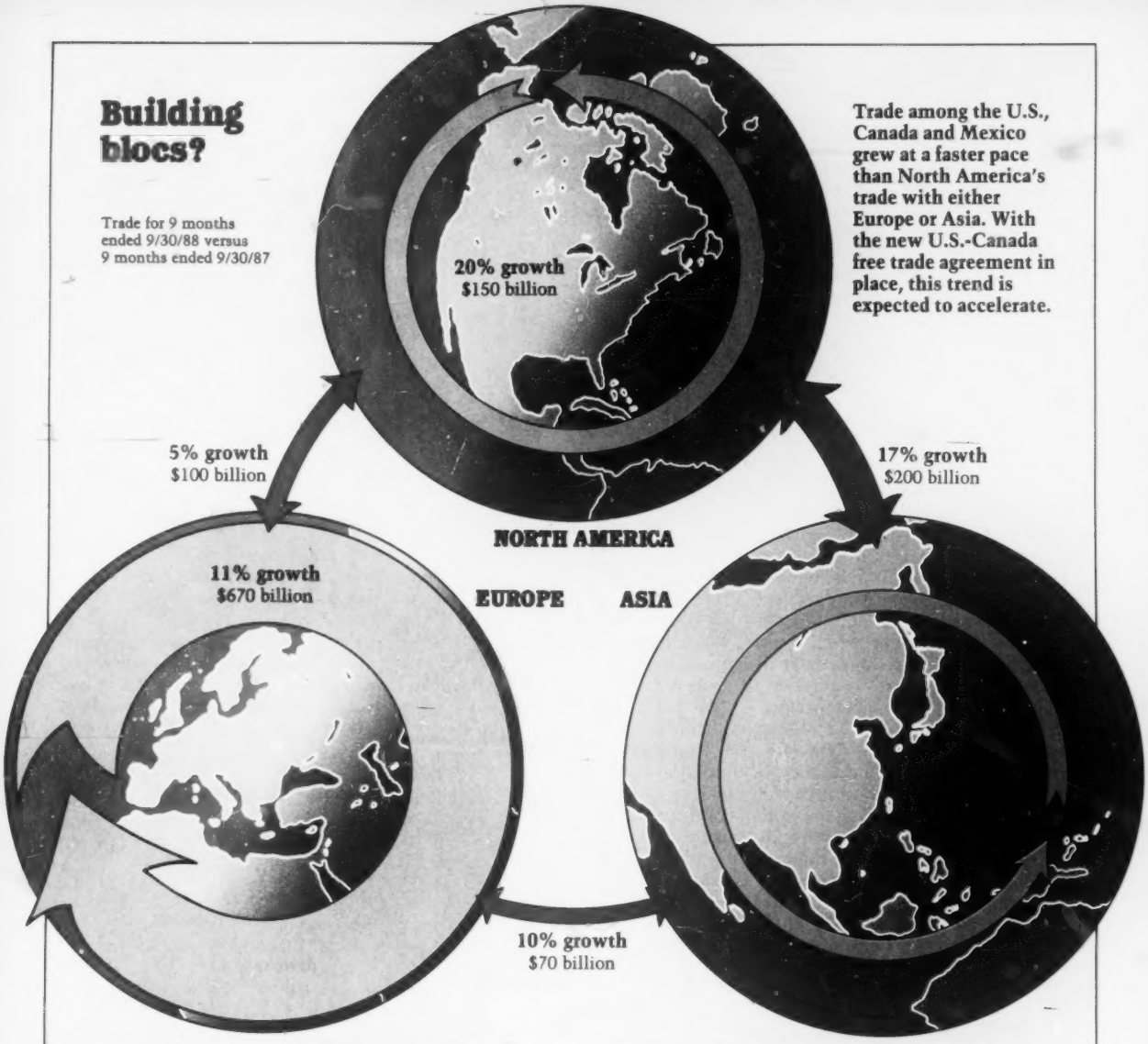
What accounts for the new trade patterns? To a great degree, protectionism, and the U.S. itself is no starry-eyed exception. Despite the Reagan Administration's commitment to free trade, protectionist actions in Washington over the past eight years have pushed the U.S.' share of total imports subject to quota or official restraint from 12% up to 23%. So-called "managed trade agreements" have been enacted to restrict imports of autos, machine tools, carbon steel and semiconductors. On top of that, the U.S. in the past eight years has imposed higher tariffs on motorcycles, specialty steel and shingles and shakes.

Congress is talking about setting up its own trade office to keep an eye on the presidentially appointed U.S. Trade Representative. Such an office would work in much the same way the Congressional Budget Office squares off against the President's Office of Management & Budget. This approach appears to be another example of congressional usurpation of presidential powers, encouraged by seemingly perennial Republican possession of the White House and Democratic control of Congress. But it could encourage protectionism, since Congress tends to represent parochial interests, while the White House tends to represent the interests of the country as a whole.

Even America's academic community—long a standard-bearer for free trade—is beginning to warm to selective forms of protectionism. One group of academics advances the argument that trade advantages in the late 20th century are increasingly determined not so much by a country's natural resource base or the skills of its people as by public policy: taxation, education and business regulation. In other words, government plays the major role in determining whether a country's businesses will be able to compete successfully with their foreign rivals.

The U.S. must fight fire with fire, these academics argue. For the U.S. to compete with Europe and Asia, Washington should help private American companies by funding research in selected sectors such as semiconductors and high-definition television.

If the U.S. is hardly innocent, it is not the worst offender. Protectionism is rampant in some European countries. Italy has adopted regulations that all but ban Japanese cars from the


Building blocs?
Trade for 9 months ended 9/30/88 versus 9 months ended 9/30/87
Trade among the U.S., Canada and Mexico grew at a faster pace than North America's trade with either Europe or Asia. With the new U.S.-Canada free trade agreement in place, this trend is expected to accelerate.
20% growth
$150 billion
5% growth
$100 billion
17% growth
$200 billion
NORTH AMERICA
11% growth
$670 billion
EUROPE
ASIA
10% growth
$70 billion
Europeans deny it, but their plans for a unified market in 1992 have unmistakable protectionist overtones. The European Community's trade with North America is inching ahead at a 5% growth rate, while trade inside Europe grows at twice that pace.
Based on robust trade ties, an Asian common market is emerging. It includes Japan, South Korean, Taiwan, Hong Kong, Singapore, Indonesia, Malaysia, Thailand and the Philippines. The market does not yet include China.
Sources: FORBES estimates; Commerce Dept.; European Economic Community; Bank of Japan; governments of Singapore, Hong Kong, Malaysia, Indonesia, Philippines, Thailand, Taiwan, South Korea, Canada and Mexico
Andrew Christie

Italian market. France now routinely holds Japanese electronics products at the border indefinitely for small infractions.

Despite the European Economic Community's protestations that the 1992 accord will promote free trade worldwide, the Community's own projections show that trade inside the EEC is expected to grow 10% in the next six to ten years, while the Community's imports from non-EEC countries will grow only 2% to 3%.

Business people are well aware of the trend toward protectionism and are acting in what they see as their own best interests. To ensure their access to foreign markets, they are increasingly setting up plants inside those markets. Thus, Korea's Hyundai Motor Co. has set up a plant in Canada to make its Sonata midsize cars for customers in Canada and the U.S. Foreign textile manufacturers from Hong Kong and elsewhere are setting up shop in the Caribbean, largely because President Reagan's Caribbean Basin Initiative assures these islands preferential access to the U.S. consumer market (FORBES, *July 25, 1988*).

Industry experts say that IBM, worried that Europe's 1992 regulations could exclude it completely from the continent's data processing business, is considering joint ventures with Eu-

ropean firms.

Smaller U.S. companies, fearing a protectionist backlash, are scrambling to get inside Europe well before 1992. Thus, Richardson Electronics, Ltd., a LaFox, Ill. manufacturer (sales, $120 million), recently acquired its first European factory, in Brive, France. Says Edward Richardson, the company's chairman and CEO, "We feel it would be much better to be in place when it all happens than to try to get in after 1992."

Will someone cry halt to the protectionist trend before it escalates into a trade war? It's impossible to say, but if a trade war does erupt, each of the three blocs is in an excellent position to go it alone.

Why? Because each bloc is roughly similar in macroeconomic terms. Each has solid sources of capital and technology. Each has considerable natural resources, though not quite enough to be self-sufficient. Each has regions where an abundant supply of inexpensive labor is readily available—North America in Mexico, Europe in Spain and Portugal, Asia in Indonesia, Thailand and the Philippines.

Europe, cocky over the prospects of 1992, is clearly in the mood to listen to protectionist arguments. The U.S., worried over its relative industrial decline, is, too. Perhaps the most vulnerable bloc is Asia, where the consumer market, at 480 million people, isn't as developed as in either the U.S. or Europe. Many Asians, remembering World War II, fear Japanese hegemony over their region. Also, Asia isn't knit together by a union such as the Canada-U.S. Free Trade Agreement or the European Economic Community.

But Asia's growing trade ties could prove a surprisingly powerful incentive to form some sort of union. Says David Hale of Kemper Financial Services Inc., a leading expert on international trade patterns, "Adding a political structure is just a short step from what the Asian trading market has [already] done."

Even those who support some form of modified protectionism agree that once the trend starts, it is difficult to reverse. Industrial policy could degenerate from the protection of selected industries to a restrictionist orgy benefiting companies and groups for political reasons, not only in the U.S. but everywhere.

After half a century of relative harmony on the trade front, protectionism is clearly making a noticeable comeback. Believers in free trade will make a big mistake if they treat the threat lightly. ■

What happens when a management truly focuses on the long term? It gets dumped on by trigger-happy investors. Sometimes that creates a fine opportunity for smarter investors. Consider Raychem.

"We've heard that all before"

By John Heins

"I'VE BEEN in the investment business for a long time," says Philip Fisher, 81, the eminent investment counselor and one of the pioneers of growth-stock investing. "And right now the market is more short-term-oriented than I've ever seen it."

That short-term orientation has just clobbered one of Fisher's favorite companies, Raychem Corp. of Menlo Park, Calif. This $1.1 billion (revenues) company sells sophisticated, proprietary materials and equipment to manufacturers in industries from aerospace to telecommunications [FORBES, *Nov. 2, 1987*]. For years the stock sold at a substantial premium over the market price/earnings ratio. But on Jan. 11 Raychem announced that sales in its fiscal second quarter (ended Dec. 31) would be flat, and that earnings would be "significantly lower" than the year before.

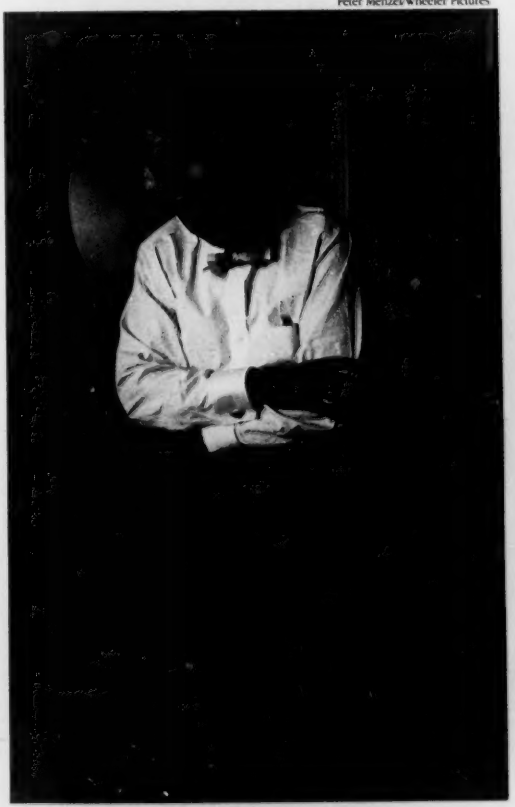
That was all the trigger-happy institutions needed to hear. They dumped the stock. It fell nearly four points, to around 31, wiping out some $135 million, or 11%, of Raychem's market value in one day.

Just six months ago Raychem traded at 54.

Can a company like this really be worth 42% less than it was six months ago? Only if it has demonstrably lost its touch. There is no reason to believe Raychem has lost its touch.

What's happening? Raychem sales and profits are off in cyclical markets such as oil services, chemicals and European defense electronics. Contin-

Peter Menzel/Wheeler Pictures



Raychem Chairman Paul Cook
"Our prospects are more solid than ever."

when you sell and realize a profit, regardless of whether you are over 55 or buy or build another home.

2) All of the interest on the portion of your loan used for home improvements is deductible; but none of it used to generate tax-free income can be deducted—now or ever. And note: Effective after Oct. 13, 1987, there are limits on how much you can deduct on second mortgages or home equity loans used for other than home improvement, purchase or construction. Generally, the limit is now $100,000 for married taxpayers filing jointly.

3) As of 1986, if you buy and finance a car used for business, and you are not self-employed, you can no longer deduct the interest on a car loan. If you lease it, however, you can deduct all the lease payments (which are substantially equivalent to the depreciation and interest), subject to business use rules. But you lose some deductions if the car is used less than 50% of the time for business. And if the car's value exceeds $11,250, the excess over that amount is deemed to be additional income to you.—**W.G.F.**

Sotheby's Art Market Trends

Index sectors	Dec 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years % change	Five years average annual % change
Old Master paintings	469	403	373	303	239	+16.4	+25.7	+54.8	+96.2	+14.4
19th-century European paintings	421	421	323	279	201	nil	+30.3	+50.9	+109.5	+15.9
Impressionist & Post-impressionist art	1,255	1,255	723	490	307	nil	+73.6	+156.1	+308.8	+32.5
Modern paintings (1900-1950)	1,138	1,138	757	512	282	nil	+50.3	+122.3	+303.5	+32.2
Contemporary art (1945 onward)	856	856	609	551	392	nil	+40.6	+55.4	+118.4	+16.9
American paintings (1800–pre-WWII)	1,076	958	871	698	556	+12.3	+23.5	+54.2	+93.5	+14.1
Continental ceramics	467	467	331	290	284	nil	+41.1	+61.0	+64.4	+10.5
Chinese ceramics	815	815	581	526	459	nil	+40.3	+54.9	+77.6	+12.2
English silver	388	388	381	343	219	nil	+ 1.8	+13.1	+77.2	+12.1
Continental silver	296	296	220	201	156	nil	+34.5	+47.3	+89.7	+13.7
American furniture	484	484	459	404	239	nil	+ 5.4	+19.8	+102.5	+15.2
French & Continental furniture	409	409	319	299	257	nil	+28.2	+36.8	+59.1	+9.7
English furniture	822	822	634	517	328	nil	+29.7	+59.0	+150.6	+20.2
Aggregate index*	740	727	512	403	286	+1.8	+44.5	+83.6	+158.7	+20.9

Basis: 1975 = 100 ($).

©Sotheby's 1989

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Index highlights

At the American paintings auctions in New York in December, American Impressionist works dominated, accounting for over half of dollar sales. "A Spring Morning" by Childe Hassam fetched $2.3 million, a record for the artist, and "Gravesend Bay" by William Merritt Chase brought $2.2 million, also a record.

Sales of Old Master paintings in London saw active bidding. A painting of the Holy Family by the 17th-century painter Bartolomé Esteban Murillo, consigned by the Dutch royal family, fetched $1.2 million, ten times its presale estimate and a record for the artist. A painting by Guido Reni made $1.5 million against an estimate of $129,000. Buyers were selective, however, spending high sums for only the best-quality works.

Sotheby's

Hassam's "A Spring Morning"

A series of sales of Chinese ceramics and works of art held in Hong Kong, New York and London marked a steady rise in prices for the very best in Chinese art. A few high-priced lots remained unsold, however, which attests to the current level of selectivity in the market.

Market highlights

Worldwide sales for Sotheby's and Christie's, the two largest international auction houses, totaled just under $1.6 billion in the fall season, a 53% increase over the same period in 1987. For 1988 as a whole, sales totaled over $3.2 billion, an increase of about 30%. The fall and full-year numbers are records for both houses.

Not long ago television station prices could only go up. Today buyers are notable by their absence, and it seems that station prices, at least for now, can only go down.

Negative ratings

By Peter Newcomb

NEXT TIME some friend or stockbroker insists that the laws of gravity and of supply and demand do not apply to some investment, remind him or her of television stations—a can't-miss investment concept if ever there was one.

Lots of smart people believed. In October 1987, for example, broadcasting entrepreneur George Gillett purchased six television stations, five of them network affiliates, in partnership with leverage specialists Kohlberg Kravis Roberts & Co. Price tag? A hefty $1.3 billion, or some 13 times year-ahead cash flow; the deal was mostly financed by high-yield bonds sold by Drexel Burnham Lambert. A year earlier Knight-Ridder bought three stations from Gannett for $160 million, at 12 to 13 times cash flow.

It now looks as if Gillett and Knight-Ridder bought at the very top.

Brokers and analysts figure that over 50 of the country's 650 network-affiliate TV stations are either officially listed or are rumored to be on the auction block. Market value? Over $2 billion. Potential buyers are not besieging the sellers with rich offers.

George Gillett admits that he is trying to sell three of the affiliate stations, most of which are in big cities, that he bought during 1986-87. Rumored to be close to a sale is Gillett's WSMV-TV, the affiliate in Nashville. Gillett remains confident that he will find people willing to pay strong multiples. Perhaps. Meanwhile, his junk bonds are at discounts and Gillett may be having trouble servicing his debt. Brokers say he's asking for 17 times cash flow, and he won't be able to get anywhere near that. Advises Shearson Lehman Hutton investment banker Frederick Seegal, "When the market's 12, you don't ask 17 on the expectation you can get 13."

Knight-Ridder is trying to sell all eight of its TV stations. A Knight-Ridder spokesman says the company wants to concentrate on its core business, publishing. Whatever the reason, it's clear that Knight-Ridder could take a big hit on the stations it bought in 1986. Richard Blackburn, whose Blackburn & Co. brokered nearly $500 million in media transactions last year, says of TV station buyers and sellers: "They're dancing with each other, but no one is going home with anybody." Unable to get a decent offer for its Hartford station, WVIT-TV, Viacom Inc. recently pulled it off the market.

From the potential buyer's standpoint, there are two parts to the prob-

Susan Blubaugh

Mixed bag

The six broadcasters listed below are among the more pure-play television station companies. While the market values of big Capital Cities/ABC and cash-rich CBS are holding up well, the stocks of newcomers Price Communications and TVX were trading near their lows until very recently.

Company	No of stations	Cash flow latest 12 mos ($mil)	Market value ($mil)	Market value/ cash flow	Recent price	Price range (52 weeks)	
Capital Cities/ABC	8	$372	$6,437	17	356½	369¾	297
CBS	4	504	4,072	9	174⅜	182¾	146
Chris-Craft Industries	7	22	499	23	22⅛	24⅜	16⅞
Great American Communications	5	46	294	7	9⅜	12¾	7¾
Price Communications	9	13	47	4	7⅜	10⅝	5¾
TVX Broadcast Group	9	–50*	9	0.2	3⅞	4¼	1¼

* Estimate

Source: Media General, via Lotus CD Investment

lem: accurately projecting cash flow, and paying an appropriate multiple for that income. "Declining audiences, the threat of nonnetwork TV and the slumping national advertising market don't mean that television is not a good business," says Communications Equity Associates Chairman Rick Michaels. "But it's not a good business at 15 times cash flow." Michaels sees multiples settling down between 9 and 10 times cash flow, maybe as low as 8 for small markets.

There is little in the immediate picture that would encourage buyers to pay high multiples. Most media people are forecasting single-digit advertising growth rates for the coming year. Sharon Armbrust, senior analyst at media analysts and investors Paul Kagan Associates, estimates that broadcast network advertising for 1989 will be up only 5% over 1988, to $9.7 billion; that compares with the 10% growth rates common during the 1970s and early 1980s. Armbrust further notes that the networks' combined prime-time viewership has dropped from 90% in 1978 to a projected 60% this year.

"We're now in a down cycle [in TV station prices]," says Shearson Lehman's Seegal. "Some of the financial institutions that used to be very aggressive in lending to broadcasting are saying, 'Wait a second, maybe we better rethink some of our aggressiveness.' " As in real estate, so in broadcast: no financing, no deals.

Perhaps the darkest cloud overhanging the stations is network compensation. Since the inception of network-sponsored programming, networks have paid their affiliate stations for airing the programs. For most stations, compensation brought in 4% to 5% of the stations' total revenue. For smaller, more remote markets, this number could double. Network compensation was bottom-line pure profit for the affiliate stations—no expense, no overhead.

Now the networks are reconsidering the example set by WPBF-TV, ABC's affiliate in West Palm Beach. In January this year, WPBF became the first affiliate to pay its network for programming. "I am amazed networks haven't gotten wise to it years ago," says Eric Strauss, a vice president for Henry Ansbacher, a media mergers and acquisitions firm. Potential station buyers, he adds, "are going to have to wonder what this means to them over the long term."

As if all this isn't bad enough, audience viewing habits are changing. Last fall's writers' strike further eroded network audiences. Independent stations, on average, now account for about 25% of all TV viewing; ad-supported cable accounts for another 12% or so. In the November sweeps, when the networks do their utmost to win viewers, independent stations won a 23 share; each of the three networks won a 20 share.

Are the networks themselves in trouble? Not really. They have other things going for them. Under Laurence Tisch, CBS Inc. sits on $1.5 billion in cash, from selling off assets. Cap Cities/ABC has hedged some of its loss in network viewership through ESPN, the fast-growing sports cable station. For its part, NBC is making serious moves into cable; in April it will air CNBC, a consumer news and business channel. As regards their basic business, Kagan Associates' Armbrust reminds that the networks still offer major advertisers the ability to reach the mass audience. "Broadcast TV," she says, "still is the only place in town to do major bulk advertising." But at a price. Armbrust adds: "Remember, it costs billions of dollars to program these networks."

Where the news is almost universally gloomy, as now seems to be the case in TV station land, the intelligent question to ask is: Should I buy? Now? Steven Rattner, a managing director at Morgan Stanley & Co., is optimistic. He figures the doom and gloom has been fully factored into station prices. "It's a great time to buy," he says.

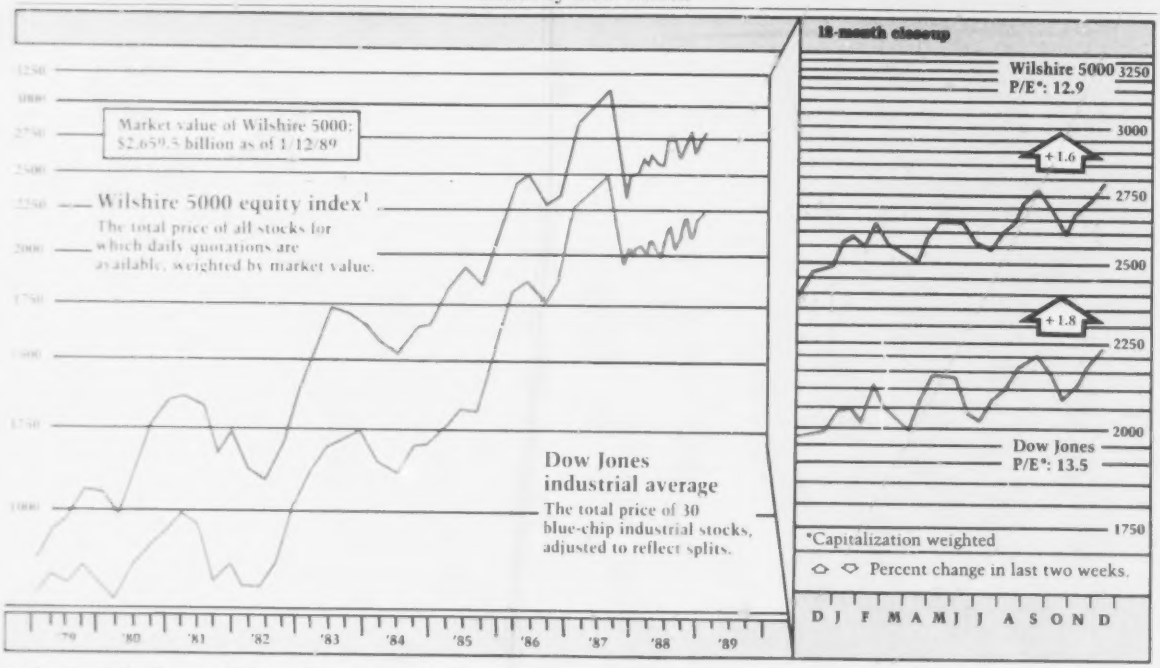
Gulf & Western Corp. would seem to agree. Its Paramount Pictures subsidiary has just bought an option to purchase a 79% stake in TVX Broadcast Group. The ultimate price, between $125 million and $180 million, will depend on how well the stations do over the next four years. Such prudence squares with analyst Eric Strauss' thinking. "When you buy at 9 times cash flow, you can take on some uncertainty and you can take some chances," says Strauss. "When you buy at 14 times, you better know things are growing in double digits."

Stanley S. Hubbard is the chief executive officer of family-owned Hubbard Broadcasting, Inc., a multistation outfit based in Minneapolis. At 55, he has lived through—and profited from—many broadcast property cycles, and he thinks there is still plenty of air in station prices even now. "People have paid multiples that are ridiculous," booms Hubbard. "I see multiples going down to eight. I'd wait a bit to buy."

It's an old story. One-decision growth stocks. Residential real estate in Greenwich, Conn. TV stations. When anyone tells you "prices can only go up," smile politely and keep your wallet in your pocket. ■

The-Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $2,659.5 billion as of 1/12/89
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
'79 '80 '81 '82 '83 '84 '85 '86 '87 '88 '89
18-month closeup
Wilshire 5000 3250
P/E*: 12.9
3000
+1.6
2750
2500
+1.8
2250
2000
Dow Jones
P/E*: 13.5
1750
*Capitalization weighted
Percent change in last two weeks.
D J F M A M J J A S O N D

Only some bulls are back. The Dow industrials' push above 2200 on Jan. 11 brought it to a postcrash high. But the market for initial public offerings remains quiet. Over the last 30 days the number of new issues as a percentage of stocks on the New York Stock Exchange was only 1.5%, not much of an improvement over the October 1988 postcrash low of 1.3%. In March of 1987, the good old days, initial public offerings represented 5% of New York Stock Exchange-listed shares.

For the most recent two weeks the Dow advanced 1.8%. Stocks listed on the American and over-the-counter markets did even better, rallying by 3.7% and 2.1%, respectively. The energy and transportation sectors fared the best, while the technology and utility groups lagged behind. Over the last 12 months the American Stock Exchange composite has been the best performer, with a 19.4% increase, versus gains of under 16% for the NYSE and Nasdaq.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.5	3.0	4.2	3.3	7.0	3.8
in last 52 weeks	15.5	15.1	16.0	15.4	19.4	15.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	4.1	7.9	14.5	1.9	6.2	5.2	2.7	8.7	9.3	4.0	3.7	8.8
in last 52 weeks	17.5	48.1	71.3	20.7	26.8	29.6	18.0	69.9	54.0	24.9	21.2	37.7

Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

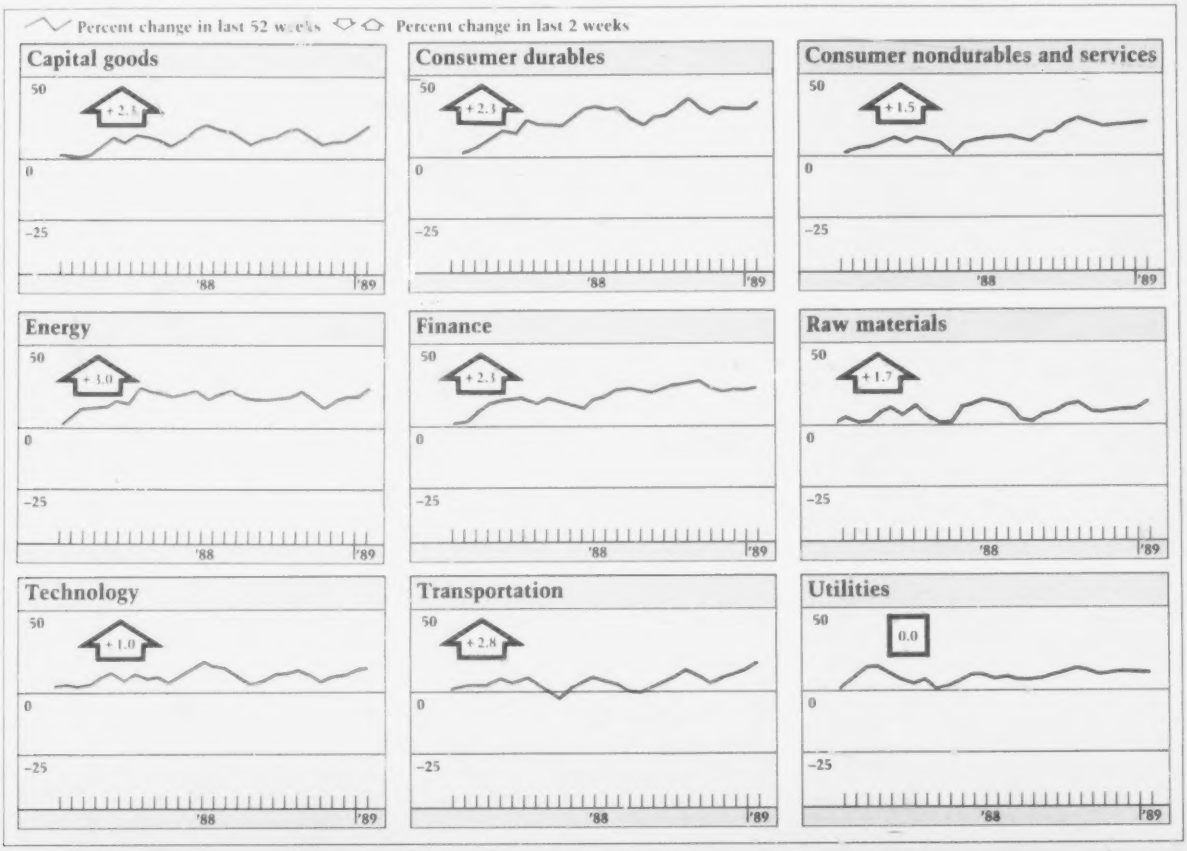
Note: All data for periods ending 1/12/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Kamin

Where the Action Is

Wall Street wants culture. Consumer nondurables was one of the weaker groups over the last two weeks, but one stock in this group, Sotheby's Holdings, had the best performance of any major issue. Sotheby's Holdings, which auctions art and other collectibles—these are nondurable?—advanced 23%, to 24½. Salomon analyst Harvey Katz estimates Sotheby's Holdings' 1988 earnings at $2.20, and he forecasts 1989 profits of $2.60 per share.

Energy stocks showed the best two-week performance, with a gain of 3%. McDermott International, Freeport-McMoRan, American Barrick Resources and Gulf Canada all advanced more than 10% while Eastern Gas & Fuel, Noble Affiliates, Kerr-McGee, Sun Inc. and Anadarko Petroleum posted small declines.



What the Analysts Think

Behind the averages. The major sectors showed little overall change in 1989 earnings estimates over the last two weeks, but analysts made sharp revisions in some individual forecasts. National Intergroup had the largest estimate cut for a major company as analysts scaled back their 1989 projection from $1.60 to $1.08.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.25	12.2
1989 estimates	3.96	10.0
1990 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Energy	$3.42	11.4	0.25%	0.28%
2	Consumer durables	4.84	11.7	0.23	1.06
3	Utilities	3.12	9.8	0.18	0.13
4	Transportation	2.87	9.7	–0.04	0.58
5	Capital goods	3.05	12.6	–0.05	0.68
6	Consumer nondurables	2.77	12.7	–0.14	–0.24
7	Raw materials	3.48	9.0	–0.14	0.19
8	Finance	3.76	7.6	–0.19	–0.96
9	Technology	3.23	10.6	–0.28	–0.47

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/12/89. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

Stock and balanced funds

The hot-funds lists are out already. These are the newspaper listings of which funds went up the most last year or last quarter. What follows in this semiannual evaluation is rather different. FORBES rates funds separately in bull and bear markets. Any aggressive fund can do well in an up year like 1988, but it takes talent to do that and still get an honor grade in bear markets.

If you want to get good recent performance with a proven ability to hold up in bear markets, look for a fund that scores an A in down markets and was up 25% or more last year. There are five: two of the Mutual Series portfolios, Mutual Benefit, Vanguard Windsor and Vanguard High-Yield Stock.

This year's semiannual survey (our larger annual survey is published in September) has been expanded to 419 equity funds. We include all those that have more than $2 million in assets and have been around for at least two market cycles, as determined by the Standard & Poor's 500 average. The last two up-and-down cycles cover the period July 31, 1982 to Dec. 31, 1988. Funds that date back to Feb. 28, 1978 are rated over three market cycles.

Foreign funds are rated over market cycles as measured by the Morgan Stanley Capital International dollar-adjusted index for Europe, Australia and the Far East. The foreign rating periods now start at Oct. 31, 1980 instead of Nov. 30, 1977, a shift that hurt gold funds, which did best in the late 1970s. For example, Franklin Gold Fund dropped from from a B to a D.

Data for the tables come from the Forbes/CDA Equity Fund Evaluator, a microcomputer-based screening and reporting package. Lipper Analytical Services also assisted in producing this report.

—Our taxable bond and preferred fund report begins on page 160. The tax-exempt bond listing begins on page 162.

Fund	Performance in UP markets	DOWN markets	12-month total return
ABT Growth & Income Trust	B	D	19.4%
ABT Utility Income Fund	D	A	15.5
*Acorn Fund	B	B	24.4
*Adams Express	D	B	12.9
Affiliated Fund	C	B	12.6
*Afuture Fund	D	D	1.5
Aim Convertible Securities	D	D	10.9
Alliance Balanced Shares	C	B	16.3
Alliance Dividend Shares	D	B	16.5
Alliance Fund	C	C	16.4
†Alliance Global—Canadian Fund	D	C	30.9
†Alliance International Fund	A	C	33.0
Alliance Technology Fund	A	D	0.6
AMA Growth Fund—Classic Growth	D	D	10.6
Amcap Fund	B	B	8.9
American Balanced Fund	C	B	12.8
American Capital Comstock Fund	C	A	14.7
*American Capital Convertible Securities	A	B	17.8
American Capital Enterprise Fund	A	D	12.0
*American Capital Exchange Fund	C	C	18.2
American Capital Harbor Fund	A	D	16.7
American Capital Pace Fund	B	A	12.1
American Capital Venture Fund	D	B	3.6
American Growth Fund	D	B	8.4
American Investors Growth Fund	D	F	18.5
American Leaders Fund	D	A	12.1
American Mutual Fund	D	A	12.8
American National Growth Fund	B	C	6.0
American National Income Fund	D	A	10.0
AMEV Capital Fund	A	C	5.2
AMEV Fiduciary Fund	A	C	7.0%
AMEV Growth Fund	A	C	7.8
Amway Mutual Fund	D	D	6.6
*Analytic Optioned Equity Fund	D	A	15.6
*Armstrong Associates	C	C	15.7
*†ASA Limited	D	D	–31.7
Axe-Houghton Fund B	B	D	8.9
Axe-Houghton Stock Fund	A	F	–0.2
*Babson Growth Fund	C	C	15.9
*Baker, Fentress & Co	B	C	13.2
*Bancroft Convertible Fund	B	F	3.5
*Beacon Hill Mutual Fund	D	B	4.3
*Bergstrom Capital[1]	B	A	16.7
Boston Co Capital Appreciation Fund	C	B	19.0
Bridges Investment Fund	C	C	–4.2
Bull & Bear Capital Growth Fund	B	D	13.8
Bull & Bear Equity-Income Fund	D	B	15.4
†Bull & Bear Gold Investors	D	D	–13.5
*Capital Exchange Fund	B	C	5.7
Cardinal Fund	C	B	16.6
*Castle Convertible Fund	D	B	10.1
*Central Securities	B	C	15.6
*Century Shares Trust	D	A	15.6
Charter Fund	B	C	3.9
*Chestnut Street Exchange Fund	B	B	15.4
Cigna Growth Fund	C	C	10.1
Colonial Equity Income Trust	C	B	18.5
Colonial Fund	B	C	21.6
Colonial Growth Shares Trust	B	C	25.2
Colonial Strategic Income—Diversified	D	B	16.6

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Claremont Capital.

Source: Forbes/CDA Equity Fund Evaluator on diskette

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*Columbia Growth Fund	A	C	10.8%
Commonwealth Indenture A & B	D	A	3.7
Commonwealtl	D	A	3.2
Composite Bond & Stock Fund	C	C	14.7
Composite Growth Fund	C	A	18.6
Constellation Growth Fund	A+	F	16.3
*Copley Fund	D	A	19.9
Country Capital Growth Fund	C	C	13.7
Country Capital Income Fund	D	A	6.2
Criterion Income—Commerce Inc Shares	C	C	6.5
Criterion Pilot Fund	C	D	0.9
Criterion Sunbelt Growth Fund	C	C	6.8
Dean Witter American Value Fund	B	D	10.8
Dean Witter Dividend Growth Secs	C	A	18.8
Dean Witter Natural Resource Dev	D	C	14.4
†Dean Witter World Wide Investment	D	A	14.1
Delaware Group Decatur Fund—I	D	A	19.9
Delaware Group Trend Fund	C	B	26.6
*Depositors Fund of Boston	B	D	12.8
*Diversification Fund	B	C	9.7
Dividend/Growth—Dividend	D	B	4.4
*Dodge & Cox Balanced Fund	B	D	11.6
*Dodge & Cox Stock Fund	A	B	13.8
Drexel Burnham Fund	C	B	11.8
*Dreyfus Convertible Securities Fund	C	C	22.6
*Dreyfus Fund	D	B	8.7
*Dreyfus Growth Opportunity Fund	A	D	17.9
Dreyfus Leverage Fund	B	C	1.8
*Dreyfus Third Century Fund	B	C	23.2
Eaton & Howard Stock Fund	D	B	14.9
Eaton Vance Growth Fund	B	B	8.5
Eaton Vance Income Fund of Boston	D	A	15.2
Eaton Vance Investors Fund	C	C	10.7
Eaton Vance Special Equities Fund	D	B	11.2
Eaton Vance Total Return Trust	C	A	12.0
*Energy Fund	C	C	16.5
*Engex	A+	D	13.8
Enterprise Group—Growth	C	B	19.7
*Equity Strategies Fund	C	C	37.2
*Evergreen Fund	A	C	22.9
*Evergreen Total Return Fund	C	A	15.8
*Exchange Fund of Boston	B	C	8.6
Fairfield Fund	A	D	11.1
*Fairmont Fund	B	C	3.1
FBL—Growth Common Stock	D	C	11.6
*Federated Exchange Fund	B	C	11.2%
*Federated Stock & Bond Fund	D	B	9.3
*Federated Stock Trust	A	B	12.7
*Fidelity Congress Street Fund	B	B	11.6
*Fidelity Contrafund	B	C	21.0
*Fidelity Destiny Portfolio I	A	B	18.8
Fidelity Equity Income Fund	C	A	22.5
*Fidelity Exchange Fund	B	B	16.4
*Fidelity Fund	C	B	17.9
Fidelity Magellan Fund	A+	A	22.7
Fidelity Puritan Fund	B	B	18.8
Fidelity Select—Energy	D	B	15.9
Fidelity Select—Financial Services	B	B	12.1
Fidelity Select—Health Care	A	D	8.8
Fidelity Select—Prec Metals & Mins	B	F	–23.9
Fidelity Select—Technology	C	F	–2.7
Fidelity Select—Utilities	D	A	16.5
*Fidelity Trend Fund	C	C	24.2
*Fidelity Value Fund	B	B	29.0
*Fiduciary Capital Growth Fund	D	C	18.8
*Fiduciary Exchange Fund	B	C	11.6
*Financial Dynamics Fund	C	D	9.1
*Financial Industrial Fund	C	D	5.9
*Financial Industrial Income Fund	D	A	15.3
*†Financial Strategic—Pacific Basin	B	D	23.2
First Investors Discovery Fund	D	D	17.0
First Investors Fund for Growth	D	F	11.5
†First Investors International Securities	C	C	15.8
44 Wall Street Equity Fund	C	F	32.3
44 Wall Street Fund	D	F	19.3
Founders Blue Chip	C	C	10.0
Founders Equity Income Fund	D	A+	11.1
Founders Growth Fund	A	C	4.8
*Founders Special Fund	A	D	13.1
FPA Capital Fund	C	C	18.1
FPA Paramount Fund	D	A	20.7
Franklin DynaTech Fund	C	D	6.5
Franklin Equity Fund	B	C	25.4
†Franklin Gold Fund	D	D	–10.6
Franklin Growth Fund	D	B	9.1
Franklin Income Fund	D	A	8.2
Franklin Option Fund	D	A	19.0
Franklin Utilities Fund	F	A+	11.6
Fund of America	C	B	16.1
Fund of the Southwest	C	C	19.4

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. *Source: Forbes/CDA Equity Fund Evaluator on diskette*

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Fundamental Investors	B	B	14.9%
*Gateway Option Index Fund	F	A	19.8
*General American Investors	A	C	15.1
*General Securities	D	B	13.9
Gintel Erisa Fund	D	A	22.0
*Gintel Fund	D	B	29.3
*GPM Fund	B	C	18.4
Growth Fund of America	A	B	18.3
*Growth Industry Shares	C	C	6.8
†GT Global Pacific	B	C	26.4
*Guardian Mutual Fund	B	B	28.0
Guardian Park Ave Fund	B	B	20.7
†John Hancock Growth Trust	A	D	11.3
Hartwell Emerging Growth	A+	F	19.2
Hartwell Growth Fund	A+	D	3.1
Hutton Investment—Growth	C	C	6.5
*IAI Regional Fund	A	B	18.5
*IAI Stock Fund	C	B	8.4
IDS Discovery Fund	C	D	12.9
IDS Equity Plus	B	C	8.4
IDS Growth Fund	A+	D	7.3
IDS Mutual	C	C	12.6
IDS New Dimensions Fund	A	C	8.1
IDS Progressive Fund	C	B	20.5
IDS Stock Fund	D	B	10.4
Income Fund of America	D	A+	14.7
Investment Co of America	B	B	13.2
Investment Trust of Boston	C	D	9.7
Investors Research Fund	A	D	–1.2
IRI Stock Fund	B	C	6.8
ISI Growth Fund	F	B	2.2
ISI Trust Fund	F	A+	12.4
*Ivy Growth Fund	C	A	12.2
*Janus Fund	C	A	16.6
*†Japan Fund	A	B	18.9
JP Growth Fund	D	B	7.3
Kemper Growth Fund	A	D	10.7
†Kemper International Fund	B	C	17.2
Kemper Option Income Fund	F	A	17.2
Kemper Summit Fund	A	D	7.7
Kemper Total Return Fund	A+	F	8.7
Keystone Custodian K-1	C	C	11.5
Keystone Custodian K-2	B	D	10.6
Keystone Custodian S-1	C	D	8.4
Keystone Custodian S-3	B	D	14.1
Keystone Custodian S-4	A	F	11.8%
†Keystone International Fund	C	C	16.7
†Keystone Precious Metals	D	D	–15.4
†Kleinwort Benson—Transatlantic Grow	B	C	20.9
Lehman Capital Fund	A	C	–4.6
*Lehman Corp	C	B	16.1
Lehman Investors Fund	C	B	16.6
*Lehman Opportunity Fund	B	A	23.2
Lepercq-Istel Fund	D	D	7.2
*Leverage Fund of Boston	B	D	9.4
Lexington Corp Leaders Trust Fund[1]	B	B	19.4
*Lexington Goldfund	A	D	–15.0
*Lexington Growth Fund	A	D	10.4
*Lexington Research Fund	C	C	9.4
*Lindner Fund	D	A+	20.4
*Loomis-Sayles Capital Development	A+	B	–0.3
*Loomis-Sayles Mutual Fund	A	D	3.2
Lord Abbett Developing Growth	C	D	3.5
Lutheran Brotherhood Fund	D	A	9.2
*Mairs & Power Growth Fund	C	C	3.2
*Mairs & Power Income Fund	C	A	9.7
*Manhattan Fund	A	C	18.3
*Horace Mann Growth Fund	C	D	8.1
Mass Capital Development Fund	A	C	9.0
Mass Financial Development Fund	A	D	10.3
Mass Financial Emerging Growth Trust	A	D	14.8
Mass Financial Total Return Trust	B	C	15.0
Mass Investors Growth Stock Fund	B	D	4.1
Mass Investors Trust	C	C	10.4
*Mathers Fund	B	B	13.6
Medical Technology Fund	A	D	11.4
Meeschaert Capital Accumulation	D	B	2.1
Merrill Lynch Basic Value Fund	C	A	22.8
Merrill Lynch Capital Fund	C	A	17.0
Merrill Lynch Equi-Bond I Fund	D	B	7.8
†Merrill Lynch Pacific Fund	A	C	32.1
Merrill Lynch Special Value	D	D	17.1
*†Mexico Fund	A+	C	74.8
MidAmerica High Growth Fund	D	B	17.3
MidAmerica Mutual Fund	D	B	8.8
Mutual Benefit Fund	C	A	29.9
Mutual of Omaha Growth Fund	D	C	22.4
Mutual of Omaha Income Fund	F	A	12.0
*Mutual Series Fund—Mutual Shares	D	A+	34.2
*Mutual Series Fund—Qualified	C	A+	30.1

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Corp Leaders Trust Fund Certificate Series B.

Source: Forbes/CDA Equity Fund Evaluator on diskette.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
National Aviation & Technology	C	C	25.0%
National Growth Fund	D	D	7.8
*National Industries Fund	D	C	3.0
National Stock Fund	D	B	21.0
National Total Income Fund	C	A	18.0
National Total Return Fund	B	D	13.5
Nationwide Fund	D	B	16.8
Nationwide Growth Fund	C	A	22.5
Nautilus Fund	F	D	7.5
*Neuwirth Fund	B	D	31.2
New England Equity Income Fund	D	A	10.0
New England Growth Fund	A	B	1.4
New England Retire Equity Fund	B	B	–2.2
†New Perspective Fund	C	B	10.2
New York Venture Fund	A	B	20.9
Newton Growth Fund	B	D	12.8
*Niagara Share Corp	B	D	12.9
*Nicholas Fund	B	A	18.0
*Northeast Investors Growth	A	C	12.8
Nova Fund	C	C	–4.1
Old Dominion Investors' Trust	D	B	14.4
Omega Fund	B	D	14.3
One Hundred Fund	C	D	1.7
One Hundred One Fund	D	C	5.3
Oppenheimer Directors Fund	B	D	20.7
Oppenheimer Equity Income Fund	C	B	14.0
Oppenheimer Fund	B	D	8.3
†Oppenheimer Global Fund	C	C	22.9
Oppenheimer Premium Income	F	A+	4.9
Oppenheimer Special Fund	D	C	18.1
Oppenheimer Target Fund	C	C	32.4
Oppenheimer Time Fund	A	C	13.7
Oppenheimer Total Return Fund	C	C	13.3
Over-the-Counter Securities Fund	C	B-	28.1
*Partners Fund	C	A	15.4
Pax World Fund	C	D	11.7
*Penn Square Mutual Fund	D	B	14.2
Pennsylvania Mutual Fund	C	B	24.5
*Petroleum & Resources Corp	B	D	11.2
Philadelphia Fund	D	C	15.2
Phoenix Balanced Fund	B	C	2.9
Phoenix Convertible Fund	C	B	4.5
Phoenix Growth Fund	B	A	6.9
Phoenix Stock Fund	A	B	4.5
Phoenix Total Return	D	B	3.3
Pilgrim MagnaCap Fund	C	A	16.5%
*Pine Street Fund	D	C	16.2
Pioneer Fund	C	C	18.2
Pioneer II	B	B	21.6
*T Rowe Price Growth Stock Fund	C	D	6.0
*†T Rowe Price International Stock Fund	B	C	17.8
*T Rowe Price New Era Fund	A	D	10.2
*T Rowe Price New Horizons Fund	B	D	14.0
Princor Capital Accumulation Fund	C	A	13.8
Princor Growth Fund	B	D	10.9
Provident Fund for Income	D	B	12.6
Pru-Bache Equity Fund	B	B	14.4
Pru-Bache Growth Opportunity	B	C	25.9
Pru-Bache Utility Fund	D	A	22.7
Putnam Convertible Income—Growth	A	D	12.1
Putnam Energy—Resources Trust	D	F	20.2
Putnam Fund for Growth & Income	C	B	20.6
George Putnam Fund of Boston	B	C	12.1
Putnam Health Sciences Trust	A	D	10.5
†Putnam International Equities Fund	B	C	9.0
Putnam Investors Fund	B	D	7.5
Putnam Option Income Trust	D	B	22.5
Putnam Vista Basic Value	A	B	14.7
Putnam Voyager Fund	A	D	11.6
Quasar Associates	A+	C	29.7
*Quest for Value Fund	C	A+	17.6
Rochester Tax Managed Fund	F	A	22.7
*Safeco Equity Fund	C	C	25.3
*Safeco Growth Fund	C	C	22.1
*Safeco Income Fund	D	A	19.0
*Scudder Development Fund	C	C	11.0
*Scudder Equity—Capital Growth	B	B	33.5
*Scudder Growth & Income Fund	B	C	11.9
*†Scudder International Fund	B	C	18.7
*Second Fiduciary Exchange Fund	B	C	10.4
Security Equity Fund	A	D	19.1
Security Investment Fund	D	C	10.7
Security Ultra Fund	A	D	22.5
Selected American Shares	D	A	22.0
Selected Special Shares	C	D	19.4
Seligman Capital Fund	A	D	2.4
Seligman Common Stock Fund	B	B	10.1
Seligman Growth Fund	B	D	7.3
Seligman Income Fund	D	A	10.6
Sentinel Balanced Fund	C	B	9.9

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. *Source: Forbes/CDA Equity Fund Evaluator on diskette*

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Sentinel Common Stock Fund	C	A	13.4%
Sentinel Growth Fund	A	D	3.5
Sentry Fund	B	D	16.9
*Sequoia Fund	D	A+	10.9
Shearson Lehman Appreciation Fund	A	B	13.5
Shearson Lehman Fundamental Value	D	B	21.1
Sherman, Dean Fund	D	F	25.7
Sigma Capital Shares	B	B	10.9
Sigma Investment Shares	C	B	11.6
Sigma Special Fund	B	C	11.5
Sigma Trust Shares	C	C	12.4
Sigma Value Shares	B	D	18.8
Sigma Venture Shares	B	D	4.0
Smith Barney Equity Fund	B	C	0.9
Smith Barney—Income & Growth	D	A	17.7
†SoGen International Fund	C	A	14.2
*Source Capital	C	A+	16.7
Sovereign Investors	D	A	11.2
*Spectra Fund	A	D	6.0
State Bond Common Stock Fund	C	D	9.8
State Bond Diversified Fund	D	B	15.2
State Bond Progress Fund	C	D	9.9
*State Street Exchange Fund	B	C	12.2
*State Street Growth Fund	B	C	15.0
State Street Investment Corp	B	C	10.2
Steadman American Industry Fund	F	F	–11.1
Steadman Associated Fund	F	C	1.5
Steadman Investment Fund	F	D	–6.6
Steadman Oceanographic Tech & Grow	F	F	–25.9
*SteinRoe Equity—Capital Opportunities	A+	F	–3.9
*SteinRoe Equity—Special Fund	A	C	20.2
*SteinRoe Equity—Stock Fund	A	D	0.7
*SteinRoe Equity—Total Return Fund	C	D	7.8
*SteinRoe Equity—Universe Fund	B	D	2.3
Strategic Capital Gains	F	D	5.5
Strategic Investments Fund	A+	F	–42.9
*Stratton Growth Fund	D	C	22.6
*Stratton Monthly Dividend Shares	F	A+	9.7
Strong Investment Fund	C	B	9.1
Strong Total Return Fund	A	C	15.5
Surveyor Fund	B	D	28.8
Technology Fund	A	D	2.9
†Templeton Foreign Fund	C	B	22.0
*†Templeton Global[1]	C	B	28.7
†Templeton Growth Fund	C	B	23.6
†Templeton World Fund	C	B	19.7%
*Tri-Continental Corp	B	C	7.2
*Tudor Fund	A	C	15.3
*20th Century Growth Investors	A+	D	2.7
*20th Century Select Investors	A+	D	5.6
*20th Century Ultra Investors	A	D	13.3
*Unified Growth Fund	C	B	19.3
*Unified Income Fund	C	D	14.6
*Unified Mutual Shares	D	B	16.9
United Accumulative Fund	C	B	17.0
United Continental Income Fund	A	D	11.7
United Income Fund	D	A	19.8
†United International Growth	C	A	9.9
United Retirement Shares	C	C	17.7
United Science & Energy Fund	C	C	9.0
*†United Services—Gold Shares Fund	F	D	–35.7
*United Services—Good & Bad Times	D	C	–3.1
US Trend Fund	B	C	12.5
United Vanguard Fund	B	A	13.2
*USAA Mutual—Growth Fund	C	D	6.6
*USAA Mutual—Sunbelt Era Fund	B	D	14.4
*Valley Forge Fund	F	A+	7.0
*Value Line Fund	B	C	9.6
*Value Line Income Fund	D	A	14.0
*Value Line Leveraged Growth Inv	B	B	6.4
*Value Line Special Situations Fund	C	D	3.3
†Van Eck International Investors	D	C	–22.1
*Vance, Sanders Exchange Fund	B	C	12.9
Vance, Sanders Special Fund	D	C	9.5
*Vanguard Explorer Fund	C	C	25.8
*Vanguard High Yield Stock	D	A+	25.9
*Vanguard Index Trust—500 Portfolio	B	C	16.2
*Vanguard WL Morgan Growth Fund	B	C	22.4
*Vanguard Naess & Thomas Spec Fund	D	D	24.6
*†Vanguard Trustees Commingled—Intl	C	A	18.7
*Vanguard Trustees Commingled—US	B	B	24.6
*Vanguard Wellesley Income Fund	D	A+	13.5
*Vanguard Wellington Fund	B	C	16.1
*Vanguard Windsor Fund	C	A+	28.7
Variable Stock Fund	D	B	4.8
Wall Street Fund	C	D	18.6
Washington Mutual Investors	C	A	17.6
Weingarten Equity Fund	A+	D	11.3
*WPG Fund	A	C	9.7

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Templeton Global I.

Source: Forbes/CDA Equity Fund Evaluator on diskette

Taxable bond and preferred funds

We rate taxable fixed-income funds over three market cycles, covering the period Mar. 31, 1980 to Dec. 31, 1988. A fund must have been in operation for at least two of those cycles—since Sept. 30, 1981—to be rated. Our benchmark is the Merrill Lynch Corporate/Government bond index. More information about the rating system appears in the annual fund survey (*Sept. 5, 1988*).

As with equity funds, the idea is to show separately how well a fund does in bull and in bear markets. And, like equity funds, bond funds do not often shine in both fair weather and foul. The ones that do well in bear markets—that is, when interest rates are rising and bond prices are going down—tend to be the ones with the shortest maturities of bonds in their portfolio. Portfolios of long-term bonds, by contrast, benefit the most from declining interest rates but suffer the most in bear markets. Fidelity High Income is an exception. It landed an A in both bull and bear markets.

The following table contains 157 funds: all those large enough and old enough to qualify for letter grades in the annual fund survey, plus any funds that have at least $400 million in assets and at least 12 months of performance data. Municipal bond funds are listed separately starting on page 162.

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*AARP Income—GNMA & US Treas			4.7%
*ACM Government Income Fund			6.9
Alliance Bond—Monthly Income Shares	B	D	8.2
Alliance Bond—US Government			6.5
Alliance Mortgage Securities Income			8.6
AMA Income Fund—Classic Income	D	D	5.9
*American Capital Bond Fund	B	B	11.6
American Capital Corp Bond Fund	C	B	12.7
American Capital Government Secs			6.9
American Capital High Yield Inv	C	B	12.9
American Funds Inc—US Govt Guar			6.9
*AMEV Securities	B	D	9.0
AMEV US Govt Securities Fund	C	B	7.3
Axe-Houghton Income Fund	A	C	8.7
*Babson Bond Trust—Long-Term	D	B	7.4
Bond Fund of America	C	B	10.7
*Bunker Hill Income Securities	B	C	10.3
*Capital Preservation Treasury Note	D	A	5.2
Cigna High Yield Fund	B	A	16.4
Cigna Income Fund	B	C	9.0
*Circle Income Shares	C	B	9.4
*CNA Income Shares	B	A	22.7
Colonial Government Securities Plus			8.5
Colonial High Yield Securities	C	A	12.6
Colonial Income Trust	C	D	12.4
Composite Income Fund	C	D	7.1
Criterion Bond—Investment Quality	A	D	6.4
Criterion Bond—US Govt High Yield			6.2
*Current Income Shares	A	D	9.8
Dean Witter Government Secs Plus			6.1
Dean Witter High Yield Secs	B	C	10.0
Dean Witter US Govt Securities			6.9
Delaware Group Delchester High Yield-I	B	C	14.0
*Drexel Bond-Debenture Trading Fund	F	A+	8.3
*Dreyfus A Bonds Plus	D	B	8.9%
Dreyfus GNMA Fund			5.6
Eaton Vance High Yield	C	A	19.9
*Excelsior Income Shares	B	F	6.5
*Federated GNMA Trust			8.2
Federated High Income Securities	C	C	15.0
*Federated Income Trust			8.3
*Federated Intermediate Government			5.3
*Federated Short-Intermed Govt			5.7
*Fidelity Flexible Bond Fund	C	D	7.8
*Fidelity Ginnie Mae			7.2
*Fidelity Government Securities Fund	D	C	6.4
*Fidelity High Income Fund	A	A	12.5
*Fidelity Intermediate Bond Fund	D	A	7.1
*Fidelity Mortgage Securities			6.7
*First Australia Prime Income Fund		—	27.3
First Investors Bond Appreciation	D	B	8.2
First Investors Fund for Income	D	B	12.9
*Fort Dearborn Income Securities	A+	F	9.5
Franklin AGE High Income Fund	C	B	14.0
Franklin US Government Securities	D	D	7.4
Fund for US Govt Securities	B	D	7.6
*Global Yield Fund			2.6
Government Income Securities		—	6.6
*Hatteras Income Securities	B	C	9.9
John Hancock Bond Trust	B	C	8.9
*John Hancock Investors Trust	C	B	9.4
John Hancock US Govt Securities	D	A	19.9
High Yield Securities	D	A	7.4
Hutton Investment—Bond & Income			7.2
Hutton Investment—Government Secs			7.5
*IAI Bond Fund	D	D	6.4
IDS Bond Fund	B	C	10.1
IDS Extra Income Fund			13.4

*Fund has no load or shareholder-paid 12b-1 plan.

Source: Forbes/CDA Bond Fund Evaluator on diskette

Fund Ratings

Taxable bond and preferred funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
IDS Selective Fund	A	C	9.6%
*INA Investment Securities	B	D	8.8
*Independence Square Income Secs	A	D	11.0
*InterCapital Income Securities	A	C	12.7
Investment Portfolios—Govt Plus			4.5
Investment Portfolios—High Yield			12.4
Kemper High Yield Fund	B	A+	14.3
Kemper Income & Capital Preservation	C	C	10.4
Kemper US Government Securities	C	D	6.3
Keystone Custodian B-1	C	D	6.2
Keystone Custodian B-2	C	C	10.8
Keystone Custodian B-4	D	B	11.7
*Lexington GNMA Income Fund	D	D	6.8
*Lincoln National Direct Placement	D	A+	13.7
Lord Abbett Bond-Debenture Fund	D	A	13.8
Lord Abbett US Government Securities	D	A	7.9
Lutheran Brotherhood Income Fund	A	C	10.7
MacKay-Shields MainStay—Govt Plus			5.6
Mass Financial Bond Fund	B	D	7.5
Mass Financial High Income—Series I	B	B	11.5
*MassMutual Corporate Investors	C	A+	11.6
MassMutual Integrity-Invest Grade	D	C	2.8
Merrill Lynch Corp—High Income	D	A	12.6
Merrill Lynch Corp—High Quality	B	D	8.5
Merrill Lynch Corp—Intermediate	C	C	7.7
Merrill Lynch Federal Securities			7.4
Merrill Lynch Retire/Income Fund			7.1
MetLife-State Street Govt Income			6.5
*MFS Government Markets Income			10.3
MFS Government Securities High Yield			6.3
MFS Lifetime Government Income Plus			5.2
*MFS Multimarket Income Trust			5.0
Midwest Income—Intermediate Govt	D	C	5.0
*Montgomery Street Income Securities	B	D	11.4
*Mutual of Omaha America Fund	F	A	8.2
*Mutual of Omaha Interest Shares	A+	C	12.5
National Bond Fund	C	D	8.4
National Federal Securities Trust			4.5
Nationwide Bond Fund	C	D	8.2
New England Bond Income Fund	D	C	6.8
*Nicholas Income Fund	C	C	11.5
*Northeast Investors Trust	A	C	14.0
Oppenheimer High Yield Fund	D	B	11.9
*Pacific American Income Shares	B	C	8.6
PaineWebber Fixed Inc—GNMA			7.4
PaineWebber Fixed Inc—High Yield			8.5%
PaineWebber Master Global Income			12.1
Phoenix High Yield Fund	C	A	13.6
Pilgrim High Yield Trust	C	B	12.2
Pioneer Bond Fund	D	C	7.7
*T Rowe Price High Yield Fund			17.8
*T Rowe Price New Income Fund	F	A	7.7
Pru-Bache Government Plus			5.6
Pru-Bache Govt Secs—Intermediate			4.8
Pru-Bache High Yield Fund	C	B	13.0
Putnam GNMA Plus Trust			5.7
Putnam High Income Government			5.1
Putnam High Yield Trust	B	B	13.9
Putnam High Yield Trust II			15.0
Putnam Income Fund	B	C	10.3
*Putnam Master Income Trust			11.6
Putnam US Govt Guaranteed Securities			7.5
*Revere Fund	F	B	5.8
*Scudder Income Fund	C	C	9.0
Security Income—Corporate Bond	D	B	6.4
Sentinel Bond Fund	D	B	8.5
Shearson Lehman—High Income Bond			12.4
Shearson Lehman High Yield Fund	A	B	11.2
Shearson Lehman—Long-Term Govt			5.1
Shearson Lehman Managed Govts			6.7
Sigma Income Shares	A	F	6.6
*State Mutual Securities Trust	D	B	9.2
*SteinRoe Income—Managed Bonds	C	D	6.6
Thomson McKinnon Inv—Income			10.1
Thomson McKinnon Inv—US Govt			6.0
*Transamerica Income Shares	A+	C	12.8
*20th Century US Governments			5.6
United Bond Fund	A	D	8.9
United High Income Fund	B	B	11.8
*USLife Income Fund	A	D	13.1
*Value Line US Government Securities	B	C	7.9
Van Kampen Merritt US Government			7.9
*Vanguard Fixed Income—GNMA	B	B	8.8
*Vanguard Fixed Income—High Yield	C	B	13.5
*Vanguard Fixed Income—Invest Grade	C	C	9.7
*Vanguard Fixed Income—Short-Term			6.9
*Vanguard Preferred Stock Fund	A	D	7.9
Venture Income (+) Plus	C	B	7.3
*Vestaur Securities	A	D	9.2

*Fund has no load or shareholder paid 12b-1 plan

Source: Forbes/CDA Bond Fund Evaluator on diskette

Fund Ratings

Municipal bond funds

A tax-exempt fund is rated here if it has over $100 million in assets and four years of performance history. Each month since Dec. 31, 1984 was treated as either a bull or bear month, according to the performance of the Shearson Lehman Hutton municipal bond index. The ratings reflect the fact that short-term funds, which are lower in interest rate risk, do very poorly in bull markets and relatively well in bear ones, while long-term funds do the reverse. Very few funds can excel in both environments.

Raw performances for New York and California funds were adjusted upward to compensate for their yield disadvantage in buying local bonds only.

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
American Capital Muni Bond Fund	B	D	14.0%
*Benham Calif Tax-Free—Intermediate	D	A	5.9
*Benham Calif Tax-Free—Long-Term	B	D	10.3
Calvert Tax-Free Reserves—Limited	F	A+	6.8
Cigna Municipal Bond Fund	A+	F	12.4
Colonial Tax-Exempt—High Yield Fund	D	A	10.5
Dean Witter Calif Tax-Free Income	A	F	11.2
Dean Witter Tax-Exempt Secs	A	C	13.0
Delaware Group Tax-Free—USA	B	A	14.2
DMC Tax-Free Income Trust—PA	C	A	12.3
Double Exempt Flex Fund	D	A	10.4
*Dreyfus California Tax-Exempt Bond	C	C	9.7
*Dreyfus Intermediate Tax-Exempt Bond	D	A	8.1
*Dreyfus NY Tax-Exempt Bond Fund	B	D	10.2
*Dreyfus Tax-Exempt Bond Fund	C	B	11.5
*Federated Short-Intermediate Muni	F	A+	5.6
Federated Tax-Free Income Fund	C	B	7.9
*Fidelity Calif Tax-Free—High Yield	B	D	11.7
*Fidelity Mass Tax-Free—High Yield	C	B	10.7
*Fidelity NY Tax-Free—High Yield	C	C	11.9
*Fidelity Tax-Free—High Yield	B	C	12.2
*Fidelity Tax-Free—Limited Term Munis	D	A	8.2
*Fidelity Tax-Free—Municipal Bond	A	C	12.3
*Financial Tax-Free Income Shares	A+	F	15.1
First Investors New York Tax-Free	C	B	10.2
First Investors Tax-Exempt Fund	D	A	10.6
Franklin Calif Tax-Free Income	C	A	12.2
Franklin Federal Tax-Free Income	A	C	13.7
Franklin New York Tax-Free Income	A	C	12.3
John Hancock Tax-Exempt Income Trust	A	C	11.4
IDS High Yield Tax-Exempt Fund	B	B	10.0
IDS Tax-Exempt Bond Fund	A	D	8.2
Kemper California Tax-Free Income	B	A	7.5
Kemper Municipal Bond Fund	C	A	8.7
Keystone Tax-Free Fund	C	B	10.9
Limited Term Municipal—National	D	A	8.7
Lord Abbett Tax-Free—National	A	C	12.6
Lord Abbett Tax-Free—New York	A	B	12.1
Lutheran Brotherhood Muni Bond	B	B	10.7
Merrill Lynch Muni—High Yield	B	B	11.8
Merrill Lynch Muni—Insured	C	B	11.0%
Merrill Lynch Muni—Ltd Maturity	F	A+	6.0
MFS Managed High Yield Muni Bond	D	A	9.0
MFS Managed Muni Bond Trust	B	B	11.6
Mutual of Omaha Tax-Free Income	A+	C	12.1
New England Tax-Exempt Income Fund	A	D	11.4
Nuveen Municipal Bond Fund	B	A	9.9
Oppenheimer Tax-Free Bond Fund	B	B	9.5
PaineWebber Tax-Exempt Income	C	B	10.6
*T Rowe Price Tax-Free Income Fund	C	C	7.9
*T Rowe Price T-F Short Intermediate	D	A	5.0
Putnam California Tax-Exempt Income	B	A	12.4
Putnam New York Tax-Exempt Inc	B	C	11.9
Putnam Tax-Exempt Income Fund	A	C	13.1
*Safeco Municipal Bond Fund	A	C	13.9
*Scudder California Tax-Free Fund	A	D	11.9
*Scudder Managed Municipal Bonds	B	C	12.0
*Scudder NY Tax-Free Fund	C	C	10.9
*Scudder Tax-Free Target—1990	D	A	4.9
*Scudder Tax-Free Target—1993	D	A	5.6
Seligman Tax-Exempt—Massachusetts	B	D	11.0
Seligman Tax-Exempt—Michigan	A	D	12.3
Seligman Tax-Exempt—Minnesota	B	D	12.1
Seligman Tax-Exempt—National	A	C	13.8
Seligman Tax-Exempt—Ohio	A	D	12.3
Shearson Lehman California Municipals	B	B	11.7
Shearson Lehman Managed Municipals	B	B	10.4
Shearson Lehman New York Municipals	B	B	11.9
*SteinRoe T-E Income—High Yield	C	A	13.5
*SteinRoe Tax-Exempt Income—Managed	A+	F	10.6
Tax-Exempt Bond Fund of America	B	C	9.2
United Municipal Bond Fund	A+	C	14.9
*USAA Tax-Exempt Fund—High Yield	B	C	12.5
*USAA Tax-Exempt Fund—Intermediate	D	A	8.7
*USAA Tax-Exempt Fund—Short-Term	F	A+	6.1
*Vanguard Muni Bond—High Yield	A	C	13.8
*Vanguard Muni Bond—Insured L-T	A	C	12.8
*Vanguard Muni Bond—Intermediate	C	B	10.0
*Vanguard Muni Bond—Long-Term	A	D	12.2
*Vanguard Muni Bond—Short-Term	F	A+	5.6

*Fund has no load or shareholder-paid 12b-1 plan.

Source: Forbes/CDA Bond Fund Evaluator on diskette